BILL # HB 2135

TITLE: ~~tax appeals; administrative hearings~~
NOW: health care; property tax exemption

SPONSOR: Huffman

STATUS: As Amended by Senate FIN

REQUESTED BY: Senate

PREPARED BY: Hans Olofsson

FISCAL ANALYSIS

Description

HB 2135, as amended, provides a tax exemption for property owned by a non-profit health care provider. The bill requires the county treasurer to grant a refund of all taxes, penalties, and interest paid by a qualifying non-profit health care provider for tax years 2000 to 2004. The bill also directs the county treasurer to reimburse the health care provider for attorney fees and court costs incurred in contesting the taxes imposed on the property for tax years 2000 to 2004. (HB 2135, as amended, is effective retroactively from January 1, 2000.)

According to the Maricopa and Pima County Assessors, only one non-profit health care provider in those two counties would currently be impacted by the bill.

Estimated Impact

As amended, JLBC Staff estimates that HB 2135 would cost the state General Fund about $60,000 beginning in FY 2006. The bill will reduce statewide primary net assessed valuation (NAV), which will increase the state's K-12 education formula cost. However, beginning in FY 2007, the impact of the NAV loss could be fully offset by the reduced cost of automatic school tax rate reductions under the state's truth in taxation (TNT) provisions. Thus, unless the Legislature decided to forego TNT, there would be no General Fund impact beginning in FY 2007.

Analysis

Based on information provided by the county assessors contacted by JLBC Staff, only one health care provider in the state is currently known to be affected by this proposal. Data directly provided by this non-profit corporation indicates that its property valuation has grown from $5.4 million in tax year 2001 to $6.4 million in tax year 2006. These full cash values correspond to a NAV of $1.35 million for tax year 2001 and $1.6 million for tax year 2006. Since valuation data for the intervening years was not available, the JLBC Staff assumed that the entity's NAV increased by $50,000 each year between tax years 2001 and 2006.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. By reducing NAV by $(1.55) million in tax year 2005, the bill will result in a direct increase of the state share of K-12 funding by about $60,000 in FY 2006.

The NAV reductions under the bill will also generate savings in the cost of the state's Truth in Taxation (TNT) program. TNT reduces the QTR and county equalization tax rate to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. For FY 2006, however, the TNT rates have already been established and would therefore not be affected by the tax year 2005 NAV reduction under this bill. For this reason, there would be no offsetting TNT savings in FY 2006.

However, beginning in FY 2007, there will be a TNT savings, which is expected to fully offset the increased cost resulting from the NAV reduction under the bill. For this reason, the JLBC Staff does not expect this bill to impose any cost on the General Fund after FY 2006.

Local Government Impact

To our knowledge, only one health care provider in the state would be impacted by this legislation. Documents submitted by this provider shows that it has incurred back taxes and attorney fees in the amount of $1.3 million for tax years 2000 to 2004, all of which would be refunded under this bill. Beginning in FY 2006, JLBC Staff estimates that taxing jurisdictions in which this non-profit corporation owns properties would forego about $250,000 in primary and secondary property taxes.

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